Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share data)

June 30	Three Months Ended 2020	Three Months Ended 2019	Six Months Ended 2020	Six Months Ended 2019
Interest income:				
Interest and fees on loans:				
Taxable	$ 21,160	$ 20,641	$ 42,077	$ 40,744
Tax-exempt	941	1,109	1,972	2,208
Interest and dividends on investment securities:				
Taxable	1,420	1,025	2,968	2,035
Tax-exempt	295	520	594	1,082
Dividends	25	22	48	41
Interest on interest-bearing deposits in other banks	11	15	35	23
Total interest income	23,852	23,332	47,694	46,133
Interest expense:				
Interest on deposits	2,864	3,713	6,367	7,124
Interest on short-term borrowings	102	595	675	1,408
Interest on long-term debt	231	296	436	576
Interest on subordinated debt	148		148	
Total interest expense	3,345	4,604	7,626	9,108
Net interest income	20,507	18,728	40,068	37,025
Provision for loan losses	1,800	350	5,300	1,400
Net interest income after provision for loan losses	18,707	18,378	34,768	35,625
Noninterest income:				
Service charges, fees and commissions	1,433	1,981	3,038	3,700
Merchant services income	472	457	586	655
Commissions and fees on fiduciary activities	493	492	999	999
Wealth management income	231	370	618	747
Mortgage banking income	312	137	449	285
Life insurance investment income	193	192	380	378
Interest rate swap revenue	249	509	719	789
Net gain (losses) on equity investment securities	39	(9)	(84)	(8)
Net gain on sale of investment securities available-for-sale		23	267	23
Total noninterest income	3,422	4,152	6,972	7,568
Noninterest expense:				
Salaries and employee benefits expense	7,048	8,037	14,904	15,632
Net occupancy and equipment expense	3,042	2,849	6,121	5,810
Amortization of intangible assets	154	182	308	374
Professional fees and outside services	611	525	976	856
FDIC insurance and assessments	336	288	410	547
Donations	341	359	679	691
Other expenses	1,710	2,189	3,495	4,009
Total noninterest expense	13,242	14,429	26,893	27,919
Income before income taxes	8,887	8,101	14,847	15,274
Income tax expense	1,311	957	1,990	1,718
Net income	7,576	7,144	12,857	13,556
Other comprehensive income (loss):				
Unrealized gain on investment securities available-for-sale	2,094	2,611	9,723	5,050
Reclassification adjustment for gains included in net income		(23)	(267)	(23)
Change in derivative fair value	(543)	443	493	506
Income tax expense (benefit) related to other comprehensive income	325	636	2,090	1,162
Other comprehensive income, net of income taxes	1,226	2,395	7,859	4,371
Comprehensive income	$ 8,802	$ 9,539	$ 20,716	$ 17,927
Per share data:				
Net income:				
Basic	$ 1.03	$ 0.96	$ 1.75	$ 1.83
Diluted	$ 1.03	$ 0.96	$ 1.74	$ 1.83
Average common shares outstanding:				
Basic	7,341,636	7,399,302	7,360,517	7,399,178
Diluted	7,376,700	7,413,114	7,391,202	7,410,558
Dividends declared	$ 0.36	$ 0.34	$ 0.72	$ 0.68

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	June 30, 2020	December 31, 2019
Assets:		
Cash and due from banks	$ 27,146	$ 26,943
Interest-bearing deposits in other banks	14,788	4,210
Federal funds sold	10,000	
Investment securities:		
Available-for-sale	287,709	330,478
Equity investments carried at fair value	338	423
Held-to-maturity: Fair value June 30, 2020, $7,717; December 31, 2019, $7,889	7,401	7,656
Total investments	295,448	338,557
Loans held for sale	1,939	986
Loans, net	2,181,909	1,938,240
Less: allowance for loan losses	26,957	22,677
Net loans	2,154,952	1,915,563
Premises and equipment, net	48,378	47,932
Accrued interest receivable	8,368	6,981
Goodwill	63,370	63,370
Intangible assets	1,257	1,565
Other assets	74,778	69,220
Total assets	$ 2,700,424	$ 2,475,327
Liabilities:		
Deposits:		
Noninterest-bearing	$ 575,206	$ 463,238
Interest-bearing	1,634,918	1,508,251
Total deposits	2,210,124	1,971,489
Short-term borrowings	50,000	152,150
Long-term debt	60,938	32,733
Subordinated debt	33,000	
Accrued interest payable	872	1,277
Other liabilities	33,446	18,668
Total liabilities	2,388,380	2,176,317
Stockholders' equity:		
Common stock: par value $2.00, authorized 25,000,000 shares, issued and outstanding 7,332,856 shares at June 30, 2020 and 7,388,480 shares at December 31, 2019	14,649	14,777
Capital surplus	133,002	135,251
Retained earnings	159,739	152,187
Accumulated other comprehensive loss	4,654	(3,205)
Total stockholders' equity	312,044	299,010
Total liabilities and stockholders' equity	$ 2,700,424	$ 2,475,327

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements

1. Basis Of Presentation

The accompanying unaudited consolidated financial statements of Peoples Financial Services Corp. and subsidiaries (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), Regulation S-X and reporting practices applied in the banking industry. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. All significant intercompany balances and transactions have been eliminated in consolidation. Prior-period amounts are reclassified when necessary to conform with the current year's presentation. These reclassifications did not have any effect on the operating results or financial position of the Company. The operating results and financial position of the Company at and for the quarter ended June 30, 2020 are not necessarily indicative of the results of operations and financial position that may be expected in the future.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. For additional information and disclosures required under GAAP, reference is made to the Company's Annual Report on Form 10-K.

Consolidated Financial Highlights

(Dollars in thousands, except per share data)

Six months ended June 30,	2020	2019	Change $	Change %
Financial Position:				
Assets	$ 2,700,424	$ 2,324,266	$ 376,158	16.18 %
Investment securities	295,448	269,917	25,531	9.46
Loans, net	2,181,909	1,858,799	323,110	17.38
Deposits	2,210,124	1,876,799	333,325	17.76
Stockholders' equity	312,044	291,583	20,461	7.02
Earning assets	2,502,145	2,132,063	370,082	17.36
Interest-bearing liabilities	$ 1,778,856	$ 1,592,484	$ 186,372	11.70 %
Financial Performance:				
Net interest income	$ 40,068	$ 37,025	$ 3,043	8.22 %
Provision for loan losses	5,300	1,400	3,900	278.57
Noninterest income	6,972	7,568	(596)	(7.88)
Noninterest expense	26,893	27,919	(1,026)	(3.67)
Income tax expense	1,990	1,718	272	15.83
Net income	12,857	13,556	(699)	(5.16)
Comprehensive income	$ 20,716	$ 17,927	$ 2,789	15.56 %
Financial Ratios:				
Net income as a percentage of average total assets	1.00 %	1.18 %		
Net income as a percentage of average stockholders' equity	8.48	9.63		
Stockholders' equity as a percentage of total assets	11.56	12.55		
Net interest income as a percentage of average earning assets	3.43	3.60		
Loans, net as a percentage of deposits	98.72	99.04		
Net loans charged-off as a percentage of average loans, net	0.10 %	0.09 %		
Per Share Data:				
Net income	$ 1.75	$ 1.83		
Cash dividends declared	0.72	0.68		
Stockholders' equity	$ 42.55	$ 39.41		

Note: Tax-equivalent adjustment was calculated using the prevailing statutory rate.

Dear Fellow Shareholder:

As the COVID-19 events unfolded throughout the first six months of 2020, our priority has been maintaining the safety and well-being of our employees, customers and their families. To accomplish this we implemented the company's pandemic plan and executed various strategies and protocols intended to protect our employees, maintain services for our customers, assure the functional continuity of our operating systems, controls and processes, and mitigate financial risks posed by changing market conditions. We have imposed business travel restrictions, implemented quarantine and work from home protocols and physically separated, to the extent possible, the critical operations site workforce that are unable to work remotely. To limit the risk of virus spread, drive-thru only and by appointment operating protocols for our branch network were implemented. We follow the recommendations of our state and local governments as to conducting business and have opened the lobbies of the majority of our branches while maintaining safety protocols.

During this very challenging environment, your Company recorded net income of $12.9 million, or $1.74 per diluted share for the six months ended June 30, 2020, compared to $13.6 million, or $1.83 per diluted share for the comparable period in 2019. The decrease in earnings was primarily due to the year-over-year increase in our provision for loan losses of $3.9 million. This increase is due to the adverse impact the COVID-19 pandemic has had on our local economy. Net interest income increased $3.0 million or 8.2% for the six months ended June 30, 2020 versus the year ago period while noninterest income decreased $596 thousand, or 7.9%, and noninterest expense decreased $1.0 million, or 3.7% when comparing the same period last year.

Total assets increased $225.1 million or 9.1% in 2020. For the six months ended June 30, 2020, total loans have increased $243.7 million or 12.6% primarily due to our participation in the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), Paycheck Protection Program ("PPP"), a low-interest loan program administered by the U.S. Small Business Administration. Our loan officers are assisting our commercial customers through the application and forgiveness process, and through June 30, 2020 we had approved PPP loans totaling $201.3 million. The PPP loans were substantially all made to our small business customers who have been impacted by COVID-19. Total deposits increased $238.6 million or 12.1% due to proceeds of PPP loans retained in deposit by our commercial borrowers, stimulus payments received and retained by our customers, and organic growth of customer relationships. Stockholders' equity equaled $312.0 million or $42.55 per share at June 30, 2020 compared to $299.0 million or $40.47 per share at year-end 2019. Dividends declared amounted to $0.72 per share representing a dividend payout ratio of 41.3%.

On behalf of the Board of Directors, I would like to thank you for your continued interest and support and would encourage you to visit our website https://www.psbt.com which contains updated, pertinent information about your Company. In addition, please remember that management is always available and willing to discuss any questions you may have regarding your investment in Peoples Financial Services Corp. We are here to provide the financial services you depend on.

Best regards,

Craig W. Best

Craig W. Best
Chief Executive Officer

Board of Directors

William E. Aubrey II
Chairman
Craig W. Best
CEO
Sandra L. Bodnyk
Ronald G. Kukuchka
Richard S. Lochen, Jr.
James B. Nicholas
Steven L. Weinberger
Joseph T. Wright, Jr., Esq.

Offices

Abington	(570) 587-4898	King of Prussia	(610) 265-0503
Airport Road	(610) 691-1202	Kingston	(570) 288-0128
Binghamton		Meshoppen	(570) 833-5171
West Side	(607) 729-3832	Minooka	(570) 955-1883
Central City Scranton	(570) 346-7741	Montrose	(570) 278-4100
Central PA Business		Moscow	(570) 842-7626
Center	(717) 279-2200	Mount Pocono	(570) 839-8732
Conklin	(607) 722-2114	Nicholson	(570) 942-2265
Doylestown	(215) 348-8207	Old Forge	(570) 457-8345
Duryea	(570) 457-1120	Orwigsburg Business	
East Scranton	(570) 342-9101	Lending Center	(570) 968-4720
Emrick Boulevard	(610) 317-4690	Peckville	(570) 383-2154
Glenburn	(570) 585-5130	South Scranton	(570) 343-1151
Gouldsboro	(570) 842-6473	Susquehanna	(570) 853-4901
Green Ridge	(570) 346-4695	Tilghman Street	(610) 398-9680
Hallstead	(570) 879-2195	Tunkhannock	(570) 836-2135
Hop Bottom	(570) 289-4124	Wealth Management	(866) 334-6979

Common Stock Information

	High	Low	Dividends Declared
Second Quarter, 2020	$39.40	$30.24	$0.36
First Quarter, 2020	50.10	35.60	0.36
Fourth Quarter, 2019	53.43	44.46	0.35
Third Quarter, 2019	$48.38	$42.90	$0.34

Market Makers

Boenning & Scattergood, Inc.	(610) 862-5368
Griffin Financial Group, LLC	(757) 955-8444
Keefe, Bruyette & Woods	(212) 887-8996
Piper Sandler	(800) 635-6851

The common stock of Peoples Financial Services Corp. trades on the NASDAQ under the symbol PFIS. Stockholders, analysts, portfolio managers and others seeking financial information should contact John R. Anderson III, Executive Vice President, Chief Financial Officer at (570) 346-7741 x2317.

Dividend Reinvestment

American Stock Transfer and Trust Company administers a Dividend Reinvestment Plan whereby stockholders may increase their investment in additional shares of common stock. Contact American Stock Transfer and Trust Company, Dividend Reinvestment Department, 6201 15th Avenue, Brooklyn, NY 11219 at (800) 937-5449, for additional information.

Dividend Direct Deposit

Peoples Financial Services Corp. stockholders not participating in the Dividend Reinvestment Plan may opt to have their dividends deposited directly into their bank account by contacting American Stock Transfer and Trust Company at (800) 937-5449.

World Wide Web Information

The Company files reports, proxy and information statements and other information electronically with the Securities and Exchange Commission ("SEC") through the Electronic Data Gathering Analysis and Retrieval filing system. Stockholders and other interested parties may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm EST. Information on the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The SEC's website address is https://www.sec.gov. Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with the SEC may be obtained without charge by writing to Peoples Financial Services Corp., 150 North Washington Avenue, Scranton, PA 18503, Attn: Marie L. Luciani, Investor Relations Officer at (570) 346-7741 x2352 or through our website at https://www.psbt.com.

Peoples Financial SERVICES CORP.

QUARTERLY REPORT

June 30, 2020